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United States General Accounting Office

Briefing Report to the Chairman,
Committee on Armed Services, House of
Representatives

April 1988

AIR FORCE CONTRACTING

Contracting for Maintenance of Training Aircraft at Columbus Air Force Base



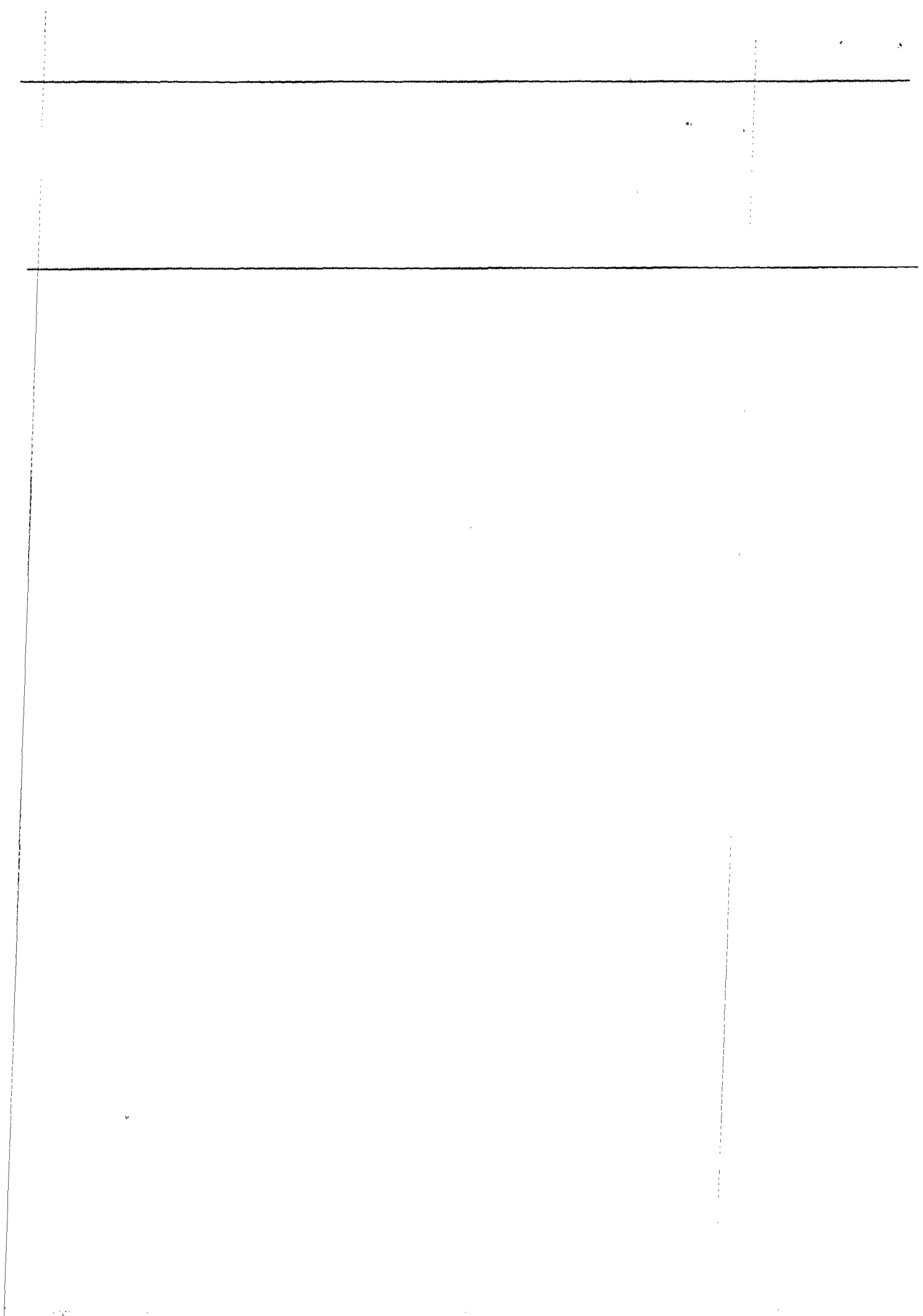
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United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

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April 6, 1988

The Honorable Les Aspin
Chairman, Committee on
Armed Services
House of Representatives

Dear Mr. Chairman:

You asked us in your letter of February 9, 1988, to review an Air Force decision to contract out the maintenance of training aircraft at Columbus Air Force Base (AFB), Mississippi. You requested that we specifically address the following issues.

- Whether the Air Force decision was fully consistent with and met all of the procedural requirements of the Office of Management and Budget (OMB) Circular A-76.
- The validity of the cost estimates used in the cost comparison.
- The impact on the outcome of the Columbus AFB cost comparison based on the issues we evaluated during our review of the Army cost comparison at Ft. Sill, Oklahoma.
- The Air Force's claim that contracting out maintenance of training aircraft at Columbus AFB will not have an economic impact on the local community.
- The Air Force's justification for contracting out maintenance of training aircraft in the context of wartime mobilization requirements.

OMB Circular A-76 requires executive branch agencies to procure commercial services from the private sector when the same quality work can be accomplished at less cost than government operation. The Circular requires that a cost comparison be made to determine whether the commercial activities should be performed in-house using government personnel or under contract by commercial sources.

A February 1986 Department of Defense Inspector General's report concluded that the Air Force could save \$43 million annually if the aircraft maintenance operations at five of

the six Air Training Command (ATC) pilot training bases using government personnel (including Columbus AFB) were as cost-effective as a contractor maintenance operation at the other base. The report recommended that ATC perform an OMB Circular A-76 study on the maintenance operation at the five bases. As a result of this report, the Air Force, in October 1986, stated that it intended to perform studies at the bases.

A cost study comparing contractor costs with in-house costs was done at Columbus AFB and, in November 1987, the Air Force announced the results. The cost comparison showed that contracting for aircraft maintenance would save the government about \$4.2 million over a 4-1/2-year period.

With regard to the specific issues you raised, we found the following.

- The Air Force complied with the provisions of OMB Circular A-76 and performed its cost comparison in accordance with the Circular and Air Force guidance.
- The cost estimates used in the cost comparison appeared to be valid.
- With the exception of the issue of not using social security and thrift plan costs in the cost comparison, which the Air Force handled correctly, the questionable issues we identified in the Ft. Sill case were not found in the Columbus AFB cost comparison.
- The Air Force estimated that the potential economic effect of contracting the aircraft maintenance operation would be a decrease in annual base spending of about \$1.4 million, or 1.3 percent, and a decrease of nine jobs outside the base.
- The Air Force determined that the available supply of skilled maintenance personnel (active, reserves, retirees) exceeded the wartime demand for aircraft maintenance personnel, even when ATC maintenance personnel were excluded.

Our findings are discussed in more detail in appendix I.

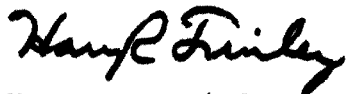
In conducting our work, we reviewed OMB Circular A-76, Air Force Regulation 26-1 (Commercial Activities Program), the

cost comparison, and other related documents. We also reviewed information pertaining to the economic impact on the local community and wartime mobilization requirements for maintenance of training aircraft. We interviewed Air Force officials responsible for the activities at Air Force Headquarters, Washington, D.C.; Headquarters, ATC, Randolph AFB, Texas; and Columbus AFB, Mississippi. Our work was performed in February and March 1988 in accordance with generally accepted government auditing standards.

As requested by your Office, we did not obtain official agency comments on this report. However, the results of our review were discussed with Air Force officials responsible for the activities discussed in the report and they concurred with its contents.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this report. At that time we will send copies to the Secretaries of Defense and the Air Force; the Director, Office of Management and Budget; and the Administrator, Office of Federal Procurement Policy. We will also make copies available to other interested parties upon request.

Sincerely yours,



Harry R. Finley
Senior Associate Director

ANALYSIS OF CONTRACTING
MAINTENANCE OF TRAINING
AIRCRAFT AT COLUMBUS AFB

BACKGROUND

On February 14, 1986, the Department of Defense Inspector General issued a report, Maintenance of Training Aircraft (No. 86-066). The report concluded that (1) aircraft maintenance performed by government personnel (predominantly military) at five of the six Air Training Command (ATC) pilot training bases was not as cost-effective as the contractor operations performed at the other base, (2) the Air Force could save \$43 million annually if the aircraft maintenance operations at the five bases using government personnel were as cost-effective as the contractor maintenance operation, and (3) ATC should perform a study under the Office of Management and Budget (OMB) Circular A-76 to develop and implement a cost-effective maintenance work force for the T-37 and the T-38 training aircraft.

As a result, in October 1986 the Air Force announced that the aircraft maintenance functions at Columbus, Laughlin, Mather, Reese, and Williams Air Force Bases (AFBs) would undergo OMB Circular A-76 cost comparisons. The Air Force performed a cost comparison of the aircraft maintenance function at Columbus AFB, which showed that over a 4-1/2-year period in-house costs would be \$62.9 million and contracting costs would be \$58.7 million, or a savings of \$4.2 million by contracting. In November 1987, the Air Force announced a decision to contract for the aircraft maintenance, which was being performed by government personnel (810 military and 115 civilians). The aircraft maintenance function converted to contractor operation on April 1, 1988.

CONSISTENCY WITH PROCEDURAL
REQUIREMENTS OF OMB CIRCULAR A-76

Our review of information relevant to the procedures used by the Air Force in its decision to contract the maintenance of training aircraft at Columbus AFB disclosed no areas of noncompliance with the procedures outlined in OMB Circular A-76 or the Air Force guidance. Throughout the cost comparison process, the Air Force kept responsible officials informed of changes in the Circular and the guidance that would affect the Columbus AFB cost comparison.

VALIDITY OF COST ESTIMATES
IN THE COST COMPARISON

OMB Circular A-76 requires that before submission of the in-house cost estimate to the contracting officer, the estimate must be reviewed by an activity independent of the group preparing the estimate. The purpose of the independent review is to ensure that costs have been estimated and supported in accordance with provisions of the Circular and OMB's cost comparison handbook.

The Air Force made the required independent review of the Columbus AFB in-house cost estimate. Necessary revisions were made to the estimate, and the in-house estimate was sealed and given to the contracting officer for subsequent comparison with contractor proposals.

Our evaluation of the in-house estimate and cost comparison data did not identify any questionable costs. Although we did not perform recomputations of all costs involved in the cost comparison, we reviewed the procedures used in costing various items in the comparison, and we believe that they were reasonable. In addition, those parties affected by the cost comparison have the right to obtain the cost comparison data and to appeal an agency decision based on questions involving the comparison. There were no appeals of the decision to contract the aircraft maintenance function at Columbus AFB.

Of concern was why the Air Force assumes that it will require twice as many military personnel to perform aircraft maintenance than the number of employees reflected in the contractor estimate. The February 1986 Department of Defense Inspector General's report addressed this issue. It stated that (1) the work force at the contracted facility had about 500 direct maintenance personnel, whereas similar operations at the government-operated facilities had about 1,020 direct maintenance personnel each and (2) the reasons for the contractor's ability to meet mission requirements with fewer maintenance personnel included higher experience levels, greater stability of the contractor work force, and greater versatility and ability of civilian mechanics to perform multiple maintenance tasks.

Air Force officials also told us that contractor personnel are fully qualified and multi-skilled when hired, and the contractor can use part-time and temporary employees as needed. In addition, the officials said that many of the Air Force mechanics are directly out of training school and need additional training, are

single-skilled, and are also required to perform other military-related duties, for example, perform charge-of-quarters, appear in military ceremonies, and attend military-related training.

IMPACT BASED ON ISSUES
IN THE FT. SILL STUDY

Our analysis of three issues involving possible inequities in the cost comparison for the base support function at Ft. Sill, Oklahoma (GAO/NSIAD-88-70BR, December 1, 1987), concluded that contracting-out costs might be understated by as much as \$5.6 million. This amount exceeded the \$2.7 million that the cost comparison indicated would be saved by contracting for the services.

One of the Ft. Sill issues involved the exclusion of the award fee amount from the contractor cost used in the cost comparison. Although the purpose of the award fee is to motivate the contractor to achieve exceptional performance, we determined, and the contracting officer agreed, that the structure of the Ft. Sill contract allowed the contractor to earn the entire award fee by meeting the specified minimum performance standards. Therefore, the award fee amount should have been included in the cost comparison.

The contract awarded for aircraft maintenance at Columbus AFB is a fixed-price incentive contract. The Air Force included the incentive fee amount in the contractor cost used in the cost comparison. Therefore, the issue was not relevant to the Columbus AFB contract.

Another issue involved personnel costs. The estimate of personnel costs for the in-house work force was, as called for by OMB Circular A-76, inflated to cover expected pay increases through fiscal year 1988. The contractor's personnel costs were based on the most recent Department of Labor survey of prevailing wages, which was for 1986. Therefore, we determined that the contractor's personnel costs used in the cost comparison may have been understated because they were outdated.

The Department of Labor wage rates provided by the Air Force to contractors were issued in February 1987. As a result, this issue was not applicable to Columbus AFB.

The last issue involved the understatement of retirement costs. The Federal Employees' Retirement System (FERS) Act of 1986 prohibits the inclusion of social security and thrift plan contributions in the OMB Circular A-76 cost comparison. Since the contractor pays social security taxes and, if applicable, makes

thrift plan contributions for all of its employees and the government pays only for those covered by the FERS Act¹, excluding social security and thrift plan contributions for both favors the contractor in the cost comparison.

The Air Force was correct by not including the social security and thrift plan costs in the Columbus AFB cost comparison. If these costs had been included, the difference between the in-house costs and contractor costs would have been less, but inclusion of these costs would not have been enough to reverse the decision to contract out.

OMB estimates that the cost of government social security and thrift plan contributions would increase the factor applied to direct labor costs by 4.7 percent. By applying this higher factor to Columbus AFB's in-house direct labor costs, we estimate that in-house costs would be understated by about \$2.1 million. The contractor's proposal identified social security and thrift plan contributions amounting to about \$4.0 million. Therefore, had the social security and thrift plan costs been included in the Columbus AFB cost comparison, the cost of contracting would save \$2.3 million, rather than \$4.2 million.

In June 1987, OMB submitted a legislative proposal to the Congress to amend section 307 of the FERS Act. The proposal provides that for any comparisons between the cost of performing commercial activities under contract with commercial sources and the cost of performing those activities in-house, the cost of the thrift plan and social security will be included. In a December 17, 1987, report to the Chairman, House Committee on Post Office and Civil Service (GAO/GGD-88-25), we concluded that enactment of the proposed legislation would eliminate the unequal treatment of retirement-related costs by requiring that all such costs be included in A-76 comparisons.

ECONOMIC IMPACT ON THE LOCAL COMMUNITY

The Air Force estimates that the economic impact on the local community (within a 50-mile radius of the center of Columbus AFB) would be a decrease in annual spending by Columbus AFB of about \$1.4 million, or 1.3 percent, and a reduction of nine jobs outside

¹FERS applies to federal employees first hired after December 31, 1983. Employees hired earlier are covered by the Civil Service Retirement System, which does not require social security and thrift plan contributions by the government.

the base. An Air Force official told us that the methodology used by the Air Force provides a rough estimate of the economic impact at a minimum cost. The official stated that a more precise analysis could be done, but the high cost precludes the use of such analyses for A-76 cost comparisons.

ESSENTIALITY OF MILITARY PERSONNEL
FOR MAINTENANCE OF TRAINING AIRCRAFT

The February 1986 Department of Defense Inspector General's report questioned the necessity for military personnel to perform maintenance of training aircraft. The report found that (1) there was no evidence in the personnel tracking system that ATC maintenance authorizations had a direct combat support role, (2) excluding the ATC authorizations (5 percent of total Air Force maintenance authorizations), the Air Force still had more than enough authorizations to maintain a satisfactory overseas rotation base, and (3) the majority of the ATC military maintenance positions have the same peacetime and wartime requirements and will not be deployed to other sites.

As a result of this report, the Air Force conducted an analysis of ATC aircraft maintenance personnel resources to determine the degree to which these resources would be needed to support Air Force wartime needs. The Air Force concluded that military personnel were not essential to perform ATC aircraft maintenance in wartime because there was no combat theater role, no deployment role, and no casualty replacement role. In addition, when wartime aircraft maintenance requirements were compared to total wartime supply (active, reserves, retirees), the supply exceeded the wartime demand for aircraft maintenance personnel, even when ATC maintenance personnel were excluded. Also, since military personnel are not required to perform training aircraft maintenance in either wartime or peacetime, the Air Force concluded that an Air Force civilian or private contractor work force would have no impact on its wartime maintenance capabilities.

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